

**TESTIMONY OF CHARLES J. WILLOUGHBY
INSPECTOR GENERAL
BEFORE THE D.C. COUNCIL
COMMITTEE OF THE WHOLE**

**ISSUANCE OF THE DISTRICT'S FY 2005
COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)**

FEBRUARY 2, 2006

CHAIRMAN CROPP AND OTHER COMMITTEE MEMBERS, I AM PLEASED TO SPEAK BEFORE YOU THIS MORNING AND TO BE PART OF THE SIGNIFICANT ACCOMPLISHMENT OF ATTAINING AN UNQUALIFIED OPINION ON THE DISTRICT'S FY 2005 FINANCIAL STATEMENTS.

BY LAW, THE OFFICE OF THE INSPECTOR GENERAL (OIG) IS RESPONSIBLE FOR CONTRACTING WITH AN INDEPENDENT AUDIT FIRM FOR THE CAFR AND OVERSEEING THE AUDIT PROCESS. TO ENSURE THAT THE AUDIT PROCESS RUNS SMOOTHLY, THE OIG CHAIRS AN OVERSIGHT COMMITTEE THAT MONITORS THE PROGRESS OF THE CAFR EACH YEAR. THIS COMMITTEE ENSURES THAT OBSTACLES THAT MAY HINDER THE TIMELY COMPLETION OF THE AUDIT, OR MATTERS WHICH NEED DISTRICT MANAGEMENT'S ATTENTION ARE DISCUSSED WITH THE APPROPRIATE DECISION MAKERS AND PROMPTLY RESOLVED. THE COMMITTEE MEETS REGULARLY THROUGHOUT THE YEAR TO ACHIEVE THAT GOAL.

THIS PAST SUMMER, THE OFFICE OF THE INSPECTOR GENERAL AWARDED A CONTRACT TO BDO SEIDMAN, LLP TO PERFORM THE

AUDIT OF THE DISTRICT'S FY 2005 FINANCIAL STATEMENTS (CAFR). THIS CONTRACT CONTAINS FOUR OPTION YEARS. I AM PLEASED WITH HOW THE NEW AUDITORS QUICKLY BECAME FAMILIAR WITH THE OPERATIONS OF THE DISTRICT GOVERNMENT AND ITS COMPONENT UNITS, AND WORKED COLLABORATIVELY WITH STAFF FROM ALL AGENCIES – ESPECIALLY THOSE FROM THE CFO OFFICES – TO IDENTIFY AND RESOLVE ISSUES AND TO COMPLETE THE CAFR ON SCHEDULE.

THE AUDIT COSTS FOR THE FY 2005 CAFR WERE APPROXIMATELY \$2.3 MILLION. THESE COSTS INCLUDE MODIFICATIONS OF APPROXIMATELY \$160,000 TO ADDRESS ADDITIONAL WORK RELATED TO PROCUREMENT AND CONTRACTING AND D.C. PUBLIC SCHOOLS.

AS PART OF THE CAFR AUDIT, BDO SEIDMAN MUST PROVIDE: (1) AN AUDITOR'S OPINION AS TO THE FAIR PRESENTATION OF THE DISTRICT'S FINANCIAL STATEMENTS; (2) A REPORT ON THE INTERNAL CONTROLS OVER FINANCIAL REPORTING, AND ON COMPLIANCE WITH LAWS AND REGULATIONS; AND (3) A MANAGEMENT LETTER, AS APPROPRIATE, TO BE ISSUED BY MARCH 31, 2006.

IN THE FY 2005 INDEPENDENT AUDITOR'S REPORT, BDO SEIDMAN IDENTIFIED A NEED FOR IMPROVEMENTS IN THE MANAGEMENT OF THE DISABILITY COMPENSATION PROGRAM AND THE UNEMPLOYMENT COMPENSATION TRUST FUND. ADDITIONALLY, THE RESULTS OF BDO SEIDMAN'S TESTS OF THE DISTRICT'S

COMPLIANCE WITH CERTAIN PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS DISCLOSED THE NEED TO BETTER COMPLY WITH: (1) PROCUREMENT REGULATIONS; (2) THE QUICK PAYMENT ACT; (3) BUDGET AUTHORITY; AND (4) THE FINANCIAL INSTITUTIONS DEPOSIT AND INVESTMENT ADMENDMENT ACT.

AT THIS TIME, I WOULD LIKE TO TAKE AN OPPORTUNITY TO COMMEND DR. GANDHI AND HIS STAFF FOR EMPLOYING THE MANAGEMENT AND OVERSIGHT TO CLOSE THE DISTRICT'S BOOKS AND RECORD ALL REQUIRED TRANSACTIONS NECESSARY TO PREPARE AND COMPLETE THE FINANCIAL STATEMENTS. I WOULD ALSO LIKE TO THANK THE CAFR COMMITTEE MEMBERS FOR THEIR LEADERSHIP AND EXPERTISE IN MONITORING THE CAFR OVER THE LAST SEVERAL MONTHS. IN THAT REGARD, I WANT TO SINGLE OUT FOR SPECIAL RECOGNITION BILL DIVELLO, OF MY STAFF; ARTE BLITZSTEIN, OF THE CITY COUNCIL; KEVIN CLINTON OF THE EXECUTIVE OFFICE OF THE MAYOR; AND TONY POMPA OF THE CFO'S OFFICE FOR THEIR EFFORTS AND CONTRIBUTIONS.

WHILE OVERSIGHT IS CRITICAL TO THE TIMELY COMPLETION OF THE CAFR, SO IS ENSURING THAT BENEFITS OF THE AUDITOR'S WORK IS REALIZED. ULTIMATLEY, THESE BENEFITS WILL OCCUR WHEN MANAGEMENT TAKES MEANINGFUL AND EFFECTIVE CORRECTIVE ACTION IN RESPONSE TO THE AUDITOR'S FINDINGS AND RECOMMENDATIONS. IF MANAGEMENT DOES NOT TAKE SUCH

ACTIONS, REPEAT FINDINGS IN THESE AREAS WILL LIKELY CONTINUE.

IN CLOSING, I WOULD LIKE TO SAY THAT MY OFFICE IS PROUD TO BE ONE OF THE CONTRIBUTORS TO HELP IMPROVE THE FINANCIAL CONDITION OF THE DISTRICT, AND WE LOOK FORWARD TO CONTINUING TO WORK WITH DISTRICT MANAGEMENT TO MITIGATE THE RISKS IDENTIFIED BY THE CAFR AND OIG AUDITS.

THIS CONCLUDES MY TESTIMONY. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU MAY HAVE.